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SUBJECT: PRIVATIZATION CHIEF SAYS SALES ARE MOVING FORWARD

REF: ANKARA 4061

1. (SBU) Summary: New Privatization Administration (PA) President Metin Kilci says strong political support is enabling him to proceed with long-delayed privatizations. The Higher Privatization Council's approval of the controversial sale of Petkim to the Uzan family was an important step forward, and the PA hopes to complete the sales of Tupras (petroleum refining) and Tekel (alcohol/tobacco) by year-end. Meanwhile, Kilci says the PA is "cleaning out" its portfolio by selling companies -- or in some cases just their assets -- that have been under its control for as long as twenty years. Many investors/analysts believe this government is more committed to privatization than its predecessors, and therefore are hopeful that positive rhetoric will translate into actual sales. End Summary.

2. (SBU) New Privatization Administration (PA) President Metin Kilci briefed us July 18 on privatization plans for the rest of the year. He began by stressing that, unlike in the past, there is now strong political support for privatization. He noted specifically that Finance Minister Unakitan, who now oversees the PA, is a strong supporter.

3. (SBU) Kilci argued that the Higher Privatization Council's recent decision to approve the controversial sale of petrochemical company Petkim to the Uzan family (reftel) marked an important step forward because it demonstrated convincingly to investors that the government was committed to privatization, even at a political cost. Kilci said the PA was waiting to see whether the Uzans could come up with the \$240 million payment and "credible" bank guarantees for the remaining \$365 million (to be paid in three installments) by the August 6 deadline. He acknowledged that the Uzan's successful bid had been embarrassing, since the family owes the government hundreds of millions of dollars, and said the PA had the legal authority to screen would-be bidders more carefully. (Comment: Most investors with whom we have spoken commended the GOT's approval of the sale, saying the need to show seriousness about privatization outweighed concerns about the purchaser in this case. Some also wondered if the GOT had approved the sale in the expectation that, given other recent GOT actions against Uzan Group assets, the group would not be able to come up with the payment to PA. End Comment)

4. (SBU) The PA's current focus is on the upcoming sales of Tupras and Tekel. According to Kilci, a number of foreign and Turkish companies are interested in the companies, and are now undertaking due diligence. The tender process should begin in September-October, leading to open auctions in late October, though there is some flexibility on that date. Kilci's goal is to finalize the sale contracts by the end of the year (though he warned this could slip into early 2004). In the case of Tupras, the PA will sell the state's 66 percent stake, retaining only a "golden share" to guarantee company sales of refined petroleum products to the military. On Tekel, the PA will sell the cigarette (production and distribution companies jointly) and spirits divisions separately.

5. (SBU) Kilci said that the PA is also engaged in "cleaning out" its portfolio, a move he believes is as important as the Tupras and Tekel sales. He complained that several companies have sat in the PA portfolio for as long as twenty years, during which time they have steadily lost value while remaining a drain on state finances. He is determined

to clear them out, even if it does not bring in substantial revenue. Last week, the PA opened a tender on six textile factories owned by state company Sumer, and sold 3-4 of them.

It also has sold five pulp and paper factories, and is trying to sell some facilities owned by meat packing company EtBalik. Kilci clarified that, where the companies have some potential to operate in the market, the PA is selling them as full companies. For those companies without potential, the PA is simply selling the land and other real assets and liquidating the companies. He noted that these steps have provoked strong opposition from some Parliamentarians and labor unions, but the government has instructed him to proceed anyway.

16. (SBU) The PA's plan for 2004 is to sell Turk Telekom, a number of electricity production and distribution companies, and several sugar factories. PA is now working with the World Bank, the Telecom Regulatory Authority, and private consultants to prepare a complete strategy for Turk Telekom's sale. If all goes according to schedule, the Council of Ministers will receive and approve the strategy by the end of October, so the tender process can begin by the end of the year. Kilci noted that the ongoing merger of cellular companies Aria and Aycell (the latter owned by Turk Telekom) was causing some delay, because the merger will affect Turk Telekom's valuation.

17. (SBU) Comment: After 2-3 years of positive rhetoric but little action on privatization, the investment, business and foreign diplomatic communities remain somewhat skeptical of government promises. On the other hand, there is a widespread belief in the business/investor community that this government is more committed to privatization than its predecessor. Given the PA's schedule, the government has an opportunity in the next 3-5 months to prove itself on this issue.

PEARSON